City of Riverside, California
Personnel Policy and Procedure Manual

Approved:

____
Human Resources Director

____
City Manager

Number: VI-13 Effective Date: 07/00

SUBJECT: DEFERRED COMPENSATION

PURPOSE:

To define the City of Riverside Deferred Compensation Plan as arranged under Section 457 of the Internal Revenue Code (IRC) and provide basic guidelines for Plan administration.

POLICY:

1. **Establishment of Trust**

   Contributions currently are held with ICMA-RC and/or Great-West Life & Annuity. These funds are for the long-term benefit of the City's employees through individual participant accounts.

   The City of Riverside has established a trust arrangement to ensure assets for the deferred compensation plans are protected and used exclusively for plan participants and their beneficiaries. In the event of a financial crisis, this trust will protect the participants' assets from the City's creditors.

2. **Enrollment**

   A. All regular, benefitted City employees may participate in the Deferred Compensation Plan. The City of Riverside currently has a continuous open enrollment for deferred compensation whereby enrollments or changes may be submitted at any time. To enroll or make changes, appropriate forms must be submitted to the Human Resources Department.

   Representatives will be available to answer questions on a regular basis at different work sites throughout the City. Availability calendars will be sent out and posted in all City divisions. Employees may contribute to any or all of the plans offered. The deferred compensation companies will send quarterly statements to the participants.

   B. Enrollment in deferred compensation for temporary/seasonal employees is automatic and mandatory under Federal law unless/until the employee becomes vested in CalPERS. To be vested, members must have 5 years of service with CalPERS and have funds still in the system.

   This temporary plan is in lieu of Social Security. The City matches the required employee contribution of 3.75%.

Temporary employees may contribute an additional voluntary amount. The City does not match this. As per Section 457 of the IRS Code, maximum annual contributions, mandatory and voluntary combined, are limited to 25% of base salary or a flat dollar amount defined by the IRS, whichever is less. [See policy VI-15 for additional information.]

3. **Employee Contributions**

   A. The minimum employee contribution is $10.00 per pay period. Contributions are made on a pre-tax basis and can be made up to 24 times per calendar year. The maximum allowable contribution under Internal Revenue Service (IRS) regulation is 25% of the employee's annual income, or a flat dollar amount defined by the IRS, whichever is less. The contribution limit is indexed for inflation in multiples of $500. Any increase, which is not a multiple of $500, will be rounded to the next lowest multiple of $500. The first $500 increase from $7,500 to $8,000 occurred in 1998. Participants will be notified of such changes.

   B. Participants who have a balance in a 457 account through a previous employer may roll these funds into their 457 account with the City of Riverside. This rollover does not count toward the annual limit. Participants who separate from the City of Riverside to work for another public employer may roll their 457 funds into the new employer's 457 account. The IRS does not allow 457 funds to be rolled into or out of any other type of retirement program such as a 401(k), 403(b), etc.

4. **City Contributions**

   The City will contribute a flat negotiated dollar amount per month for Safety Management and non-safety Management employees who contribute at least $50.00 per month. If the employee is enrolled in the long-term disability plan, premiums are deducted from the City contribution.

   The City will contribute a flat negotiated dollar amount per month for Confidential employees who contribute at least $50.00 per month.

   City contributions are made during the first pay period of the month. For those employees who are promoted effective the second pay period of the month, a prorated City contribution will be made.[1]

5. **Catch-up Provision**

   Employees who are within three years of the earliest retirement age (at least age 47 with at least two years of service under CalPERS), may sign up for the Catch-up provision. This provision allows the City to calculate how much the employee could have put into deferred compensation based on salary since 1979. The employee may contribute the difference

[1] Prior to 03/05/98, City contributions were not pro-rated for those employees promoted during the second pay period of the month.

between what could have been contributed and what was actually contributed, with a maximum set by the IRS in addition to regular contributions.

Employees may participate in Catch-up for a period not to exceed three calendar years, the last of which must fall in the calendar year prior to the calendar year in which the employee retires.

Participants may change the amount contributed; however, under the IRC, if contributions are completely stopped, they cannot be restarted.

6. **Withdrawal of Funds**

In accordance with Section 457 of the IRC, there are specific instructions that pertain to withdrawal of funds. Section 457 states that funds may be withdrawn from the employee's account upon:

A. Retirement;

B. Separation from the City;

C. Death; or

D. Inactivity for two years if the balance is less than an amount set by the IRS. Such distributions can be employer or employee initiated (as stated in the IRC de minimis rule, effective January 1, 1997).

If a withdrawal is made under 6.D above, this cannot be used in calculating allowable Catch-up contributions at a later date.

Under the IRC, withdrawal paperwork must be submitted to the Human Resources Department within 60 days after the separation. Effective January 1, 1997, retired participants may make a one-time change to a future date on which to begin payments. This does not apply to the payout method.)

The only other circumstance under which the employee may withdraw funds is if the employee experiences an “unforeseeable emergency” and exhausts all other means of resolving the financial situation. An unforeseeable emergency is defined as a ***severe financial hardship*** resulting from:

A. A sudden and unexpected illness or accident of the participant or dependent;

B. Loss of the participant's or dependent's property due to casualty; or

C. Other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant or dependent.

BANKRUPTCY, DIVORCE, AND TAX LIENS ARE NOT BONA FIDE HARDSHIPS UNLESS THEY RESULT IN A SEVERE FINANCIAL HARDSHIP. Other examples of what are not considered to be unforeseeable emergencies include: the need to send a Participant's child to college; the desire to purchase a home; or the need to pay off credit cards/loans.

If the employee meets the minimum requirements, the Emergency Withdrawal Packet must be completed and returned to the Human Resources Department. The Deferred Compensation Committee will convene to review the facts and circumstances of the hardship. The Committee's decision will be based upon the rules and regulations as set forth in Section 457 of the IRC. The Human Resources Department will notify the employee immediately following the decision.

Withdrawals of amounts because of an Unforeseeable Emergency must only be permitted to the extent reasonably needed to satisfy the emergency need. The Committee will review and decide whether or not the request can be granted under the applicable State and Federal laws and the City's Plan. Approved requests will be paid in a lump sum. Other payment options are subject to Committee approval.

7. **Deferred Compensation Committee**

The nine members of this Committee are appointed by the City Manager and represent a cross-section of City departments. The Committee makes all determinations on issues regarding implementation of the Plan, not specifically set forth by the Plan itself or State law. All requests for emergency withdrawals are reviewed and decided by the Committee. In accordance with the IRS guidelines, all information subject to review by the Committee will be considered confidential. Five members constitute a quorum when a decision is needed.

PROCEDURE:

Responsibility	Action
Employee	1. Completes all necessary paperwork to enroll, change, or stop contributions, and submits to the Human Resources Department.
	2. Completes all necessary paperwork to with-draw funds after separation/retirement.
	3. Contacts the appropriate company represen-tative for assistance with paperwork.
Human Resources	4. Processes all paperwork as necessary.
	5. Schedules Deferred Compensation Committee meetings as needed to review implementation of the Plan.

6. Convenes Deferred Compensation Committee as soon as possible to review Emergency Withdrawal Requests. Notifies the employee as soon as a decision is made.

7. Schedules the Plan Representatives for availability throughout the City.

8. Notifies all employees of the Plan Representative availability via printed calendars.

Department/Division

9. Posts availability notices/calendars for all deferred compensation representatives.

Disclaimer: This policy is for internal processes only. Should a discrepancy exist between this document and the Deferred Compensation Plan Document, the Deferred Compensation Plan Document will prevail. Should a discrepancy exist between this document and Federal or State Law, the Federal or State Law will prevail.